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DIVISION OF MUNICIPAL AUDIT

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March 30, 2004

Director of Schools and Members of the
Board of Education
Warren County School System
2548 Morrison Street
McMinnville, TN 37110

Ladies and Gentlemen:

Our office received various inquiries regarding the Warren County High School varsity cheerleaders. Discussion with the cheerleader coach revealed that except for purchases made to take advantage of the school's tax exempt status, all collections and disbursements related to the Warren County High School varsity cheerleaders were accounted for through a cheerleader booster club bank account, rather than in the school's bank account. State law specifically excludes booster clubs, parent/teacher associations, and other similar school support organizations from the accounting and recordkeeping requirements related to school activity funds, which are set forth in Section 49-2-110, *Tennessee Code Annotated*. However, at the request of the head cheerleader coach, this office performed limited procedures related to the Warren County Cheer Boosters records for the period March 2003 through January 2004. (Warren County Cheer Boosters is the name shown on the by-laws provided by the head cheerleader coach, while the bank account is titled "W/C Cheerleader Booster Club".) Nothing came to our attention as a result of these procedures to indicate that recorded collections were not deposited or that disbursements did not benefit the cheerleaders. **NOTE: We did not analyze individual cheerleader accounts in detail, and therefore, cannot state whether funds or disbursements were properly allocated to each cheerleader's account.**

However, these limited procedures and our discussions with various individuals revealed that the booster club was apparently not operating properly as a separate and independent entity. The following issues were noted:

1. The head cheerleader coach, who was also a teacher at the high school, apparently directed the operation of the booster club and was extensively involved with the booster club's financial transactions. The teacher collected money on school property which she later remitted to the booster club. In addition, the teacher signed checks from the booster club's bank account.
2. We could not locate nor could booster club representatives provide documentation that the booster club was operating as a separate **legal** entity. The organization was not registered as an exempt organization with the Tennessee Secretary of State. In addition, the booster club apparently did not file for Tennessee sales tax exemption. Booster club officers were not elected by the membership, and apparently only one called meeting had been held since April 2003. Also, as noted in Issue 1, the booster club operation was apparently directed by the cheerleader coach instead of the members of the booster club.
3. The head cheerleader coach and booster club treasurer admitted that the booster club occasionally used the school's sales tax exempt number. According to these individuals, some booster club purchases were made through the school in order for the booster club to take advantage of the school's sales tax-exempt status. The booster club would then issue a check to the school for the corresponding cost.
4. A letter from an assistant principal at Warren County High School stated that the school intended to withhold a student's report card and other pertinent material if cheerleading uniforms and additional clothing with a remaining balance were not returned, or the balance was not paid to the booster club. If the organization is a legitimate booster club, then a student's report card could not be withheld for debts owed to it. Conversely, if the cheerleading uniforms are the property of the school, then the required \$100 deposit for the use of these uniforms should be accounted for in the school's records.

The *Internal School Uniform Accounting Policy Manual*, Section 5-3 states, "The school becomes accountable when money is initially received by employees, officials, or volunteers acting in their official capacity." Because of the cheerleader coach/teacher's extensive involvement in the financial transactions and management of the booster club, and because the booster club apparently did not operate as a separate and independent entity, it appears that most

of the cheerleader collections should have been considered the property of Warren County High School, and therefore, should have been accounted for in the school's financial records. This issue was previously addressed in our letter to the Superintendent and Members of the Board of Education of the Warren County School System, dated May 28, 1999, which was issued following a review of records related to the Warren County High School junior varsity cheerleaders. This letter stated, "To help avoid similar situations from occurring in the future, we recommend that all teachers who handle school funds be informed that all such funds must be included in the school's records."

The Warren County Board of Education should ensure that the Warren County Cheer Boosters complied with some provisions of the board policy concerning booster clubs and parent organizations. The board's policy states that the primary purpose of these organizations is to assist and support the school in recognizing and promoting student's activities. The policy requires that all booster organizations be sanctioned by the board as a viable booster club. This policy also requires authorized organizations to follow certain guidelines and procedures, including the following:

- All organizations must submit details of the structure of the organization including officers and their duties and election of officers and their term limits.
- Organizations must maintain bank, financial, and tax-exempt status separate from the school.
- No fundraising activities will be conducted within the school by the organization during school hours and students will not participate in fundraising during regular class periods.

Prior to sanctioning an organization as a viable booster club or parent organization, the board should ensure that the organization is established as a separate and independent entity, and that its bank accounts and tax-exempt status are completely separate from the school. Under no circumstances should the school's federal identification number or the school's sales tax exempt number be used by a booster club or any other support organization. The board should also ensure that the organization has completed and filed an "Exemption Request" form with the Division of Charitable Solicitations with the State of Tennessee, Office of the Secretary of State, and require these organizations to provide details of their structure.

Once a board has sanctioned the organization, the board should continue to monitor the organization to ensure that separate and independent operation is maintained. Although board policy requires that the organization include one representative from the school as a sponsor, the

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board should ensure that each organization is managed and operated by adult members of the organization who are not school employees. The board should require that all money collected by teachers, coaches, or other board employees acting in their official capacity be remitted to the school cashier or bookkeeper and be accounted for in the school's financial records.

If you have any questions or need additional information, please contact me at (615) 401-7871.

Sincerely,

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

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